

§§ 217.39–217.40 [Reserved]

RISK-WEIGHTED ASSETS FOR
SECURITIZATION EXPOSURES

**§ 217.41 Operational requirements for
securitization exposures.**

(a) *Operational criteria for traditional securitizations.* A Board-regulated institution that transfers exposures it has originated or purchased to a securitization SPE or other third party in connection with a traditional securitization may exclude the exposures from the calculation of its risk-weighted assets only if each condition in this section is satisfied. A Board-regulated institution that meets these conditions must hold risk-based capital against any credit risk it retains in connection with the securitization. A Board-regulated institution that fails to meet these conditions must hold risk-based capital against the transferred exposures as if they had not been securitized and must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from the transaction. The conditions are:

- (1) The exposures are not reported on the Board-regulated institution's consolidated balance sheet under GAAP;
- (2) The Board-regulated institution has transferred to one or more third parties credit risk associated with the underlying exposures;
- (3) Any clean-up calls relating to the securitization are eligible clean-up calls; and
- (4) The securitization does not:
 - (i) Include one or more underlying exposures in which the borrower is permitted to vary the drawn amount within an agreed limit under a line of credit; and
 - (ii) Contain an early amortization provision.

(b) *Operational criteria for synthetic securitizations.* For synthetic securitizations, a Board-regulated institution may recognize for risk-based capital purposes the use of a credit risk mitigant to hedge underlying exposures only if each condition in this paragraph (b) is satisfied. A Board-regulated institution that meets these conditions must hold risk-based capital against any credit risk of the exposures it retains in connection with the syn-

thetic securitization. A Board-regulated institution that fails to meet these conditions or chooses not to recognize the credit risk mitigant for purposes of this section must instead hold risk-based capital against the underlying exposures as if they had not been synthetically securitized. The conditions are:

- (1) The credit risk mitigant is:
 - (i) Financial collateral;
 - (ii) A guarantee that meets all criteria as set forth in the definition of "eligible guarantee" in § 217.2, except for the criteria in paragraph (3) of that definition; or
 - (iii) A credit derivative that meets all criteria as set forth in the definition of "eligible credit derivative" in § 217.2, except for the criteria in paragraph (3) of the definition of "eligible guarantee" in § 217.2.
- (2) The Board-regulated institution transfers credit risk associated with the underlying exposures to one or more third parties, and the terms and conditions in the credit risk mitigants employed do not include provisions that:
 - (i) Allow for the termination of the credit protection due to deterioration in the credit quality of the underlying exposures;
 - (ii) Require the Board-regulated institution to alter or replace the underlying exposures to improve the credit quality of the underlying exposures;
 - (iii) Increase the Board-regulated institution's cost of credit protection in response to deterioration in the credit quality of the underlying exposures;
 - (iv) Increase the yield payable to parties other than the Board-regulated institution in response to a deterioration in the credit quality of the underlying exposures; or
 - (v) Provide for increases in a retained first loss position or credit enhancement provided by the Board-regulated institution after the inception of the securitization;
- (3) The Board-regulated institution obtains a well-reasoned opinion from legal counsel that confirms the enforceability of the credit risk mitigant in all relevant jurisdictions; and
- (4) Any clean-up calls relating to the securitization are eligible clean-up calls.

(c) *Due diligence requirements for securitization exposures.* (1) Except for exposures that are deducted from common equity tier 1 capital and exposures subject to § 217.42(h), if a Board-regulated institution is unable to demonstrate to the satisfaction of the Board a comprehensive understanding of the features of a securitization exposure that would materially affect the performance of the exposure, the Board-regulated institution must assign the securitization exposure a risk weight of 1,250 percent. The Board-regulated institution's analysis must be commensurate with the complexity of the securitization exposure and the materiality of the exposure in relation to its capital.

(2) A Board-regulated institution must demonstrate its comprehensive understanding of a securitization exposure under paragraph (c)(1) of this section, for each securitization exposure by:

(i) Conducting an analysis of the risk characteristics of a securitization exposure prior to acquiring the exposure, and documenting such analysis within three business days after acquiring the exposure, considering:

(A) Structural features of the securitization that would materially impact the performance of the exposure, for example, the contractual cash flow waterfall, waterfall-related triggers, credit enhancements, liquidity enhancements, fair value triggers, the performance of organizations that service the exposure, and deal-specific definitions of default;

(B) Relevant information regarding the performance of the underlying credit exposure(s), for example, the percentage of loans 30, 60, and 90 days past due; default rates; prepayment rates; loans in foreclosure; property types; occupancy; average credit score or other measures of creditworthiness; average LTV ratio; and industry and geographic diversification data on the underlying exposure(s);

(C) Relevant market data of the securitization, for example, bid-ask spread, most recent sales price and historic price volatility, trading volume, implied market rating, and size, depth and concentration level of the market for the securitization; and

(D) For resecuritization exposures, performance information on the underlying securitization exposures, for example, the issuer name and credit quality, and the characteristics and performance of the exposures underlying the securitization exposures; and

(ii) On an on-going basis (no less frequently than quarterly), evaluating, reviewing, and updating as appropriate the analysis required under paragraph (c)(1) of this section for each securitization exposure.

§ 217.42 Risk-weighted assets for securitization exposures.

(a) *Securitization risk weight approaches.* Except as provided elsewhere in this section or in § 217.41:

(1) A Board-regulated institution must deduct from common equity tier 1 capital any after-tax gain-on-sale resulting from a securitization and apply a 1,250 percent risk weight to the portion of a CEIO that does not constitute after-tax gain-on-sale.

(2) If a securitization exposure does not require deduction under paragraph (a)(1) of this section, a Board-regulated institution may assign a risk weight to the securitization exposure using the simplified supervisory formula approach (SSFA) in accordance with §§ 217.43(a) through 217.43(d) and subject to the limitation under paragraph (e) of this section. Alternatively, a Board-regulated institution that is not subject to subpart F of this part may assign a risk weight to the securitization exposure using the gross-up approach in accordance with § 217.43(e), provided, however, that such Board-regulated institution must apply either the SSFA or the gross-up approach consistently across all of its securitization exposures, except as provided in paragraphs (a)(1), (a)(3), and (a)(4) of this section.

(3) If a securitization exposure does not require deduction under paragraph (a)(1) of this section and the Board-regulated institution cannot, or chooses not to apply the SSFA or the gross-up approach to the exposure, the Board-regulated institution must assign a risk weight to the exposure as described in § 217.44.